

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00  
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04  
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-07 CEA-01 AGR-01 ABF-01 OPR-02 /107 W  
-----121019 171447Z /44

R 171338Z AUG 78

FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 8393  
INFO AMCONSUL CALGARY  
AMCONSUL HALIFAX  
AMCONSUL MONTREAL  
AMCONSUL QUEBEC  
AMCONSUL TORONTO  
AMCONSUL VANCOUVER  
AMCONSUL WINNIPEG

UNCLAS SECTION 01 OF 02 OTTAWA 04067

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A  
TAGS: ECON, EFIN, CA  
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING AUGUST 11.

1. SUMMARY. PROVINCIAL PREMIERS URGED GOC TO STIMULATE SAGGING ECONOMY AND CALLED FOR ECONOMIC SUMMIT LATE THIS YEAR. CONSUMER PRICES, LED BY FOOD, ACCELERATED SHARPLY IN JULY. INDUSTRY SELLING PRICES SHOWED NO SIGNS OF MODERATION IN JUNE. CONSUMPTION SPENDING APPEARS TO BE HOLDING UP DESPITE HIGHER INFLATION AND CONTINUED MODERATION IN WAGE INCREASES. SOME ANALYSTS PROJECT CONTINUED CANADIAN DOLLAR WEAKNESS IN SHORT RUN. FOREIGN BORROWING INCREASED STRONGLY IN SECOND QUARTER. END SUMMARY.

2. ECONOMIC POLICY: AT THEIR MEETING IN REGINA AUGUST 9,  
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PROVINCIAL PREMIERS URGED GOC TO PLOW PLANNED EXPENDITURE CUTS BACK INTO ECONOMY IN FORM OF TAX REDUCTIONS AND/OR INCREASED SPENDING ON JOB CREATION PROGRAMS. THEY ALSO ENDORSED ONTARIO PROPOSAL CALLING FOR GOC TO SHIFT EXPENDITURES AWAY FROM PAYMENTS OF UNEMPLOYMENT BENEFITS TOWARD JOB CREATION. PREMIERS CALLED FOR FIRST MINISTERS MEETING IN NOVEMBER TO INSURE DEVELOPMENT OF NATIONAL ECONOMIC

STRATEGY (SUCH A MEETING HAD BEEN AGREED TO AT FEBRUARY, 1978 FEDERAL/PROVINCIAL ECONOMIC SUMMIT), AND ASKED FOR ADVANCE CONSULTATIONS WITH OTTAWA ON POSSIBLE TAX MEASURES EFFECTING THE PROVINCES (SHADES OF ACRIMONIOUS GOC/QUEBEC SALES TAX DISPUTE).

3. ECONOMIC INDICATORS:

-- CONSUMER PRICE INDEX (CPI) JUMPED SHARPLY IN JULY. INDEX (NSA) REGISTERED TWELVE MONTH INCREASE OF 9.8 PER-CENT COMPARED WITH 9.2 PERCENT INCREASE IN JUNE, AND WAS DRIVEN BY SURGING FOOD PRICES. ACCELERATION OF CPI INCREASE IN JULY LIKELY TO PUSH INFLATION RATE TO 8.5 - 9.0 PERCENT IN 1978 (SEE SEPTEL).

-- INDEX OF INDUSTRY SELLING PRICES (NSA) ADVANCED BY 0.4 PERCENT TO 187 (1971100) IN JUNE. INDEX STOOD 7.5 PERCENT ABOVE LEVEL OF JUNE, 1977. TWELVE MONTH RISE IN JUNE COMPARES WITH INCREASES OF 7.3 PERCENT AND 7.5 PERCENT IN MAY AND APRIL RESPECTIVELY. INDUSTRY SELLING PRICES HAVE THUS SHOWN NO TENDENCY TO MODERATE IN RECENT MONTHS. SINCE CHANGES IN INDUSTRY SELLING PRICES OFTEN PRESAGE EVOLUTION OF RETAIL PRICES, IT IS UNLIKELY THAT CONSUMER PRICES WILL TAPER OFF SIGNIFICANTLY IN NEAR FUTURE.

-- WAGE INCREASES CONTINUED TO MODERATE IN SECOND QUARTER. INCREASES ARISING FROM COLLECTIVELY BARGAINED SETTLEMENTS  
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AVERAGED 6.4 PERCENT IN SECOND QUARTER, COMPARED WITH 6.6 PERCENT IN FIRST QUARTER AND 7.1 PERCENT IN FOURTH QUARTER, 1977. ONE YEAR SETTLEMENTS CONTAINED AVERAGE INCREASE OF 6.3 PERCENT. IN TWO YEAR AGREEMENTS, AVERAGE RISE WAS 6.7 PERCENT FOR FIRST YEAR AND 6.2 PERCENT FOR SECOND. FOR THREE YEAR CONTRACTS, AVERAGE YEARLY INCREASES WERE 9.7 PERCENT, 5.8 PERCENT AND 6.2 PERCENT RESPECTIVELY. SECOND QUARTER WAGE FIGURES INDICATE THAT LABOR CONTINUES TO TOLERATE A DECLINE IN REAL WAGES - AT LEAST FOR TIME BEING.

-- CONSUMER DEMAND HAS HELD UP DESPITE ACCELERATION OF INFLATION AND CONTINUED WAGE MODERATION. RETAIL SALES (SA) WERE CDOLS 5.8 BILLION IN JUNE, UP BY 2.3 PERCENT FROM MAY AND BY 16 PERCENT FROM JUNE, 1977. DEPARTMENT STORE SALES TOTALLED CDOLS 600 MILLION IN JUNE, A RISE OF 14 PERCENT FROM JUNE, 1977.

4. EXCHANGE RATE: CANADIAN DOLLAR STRENGTHENED SLIGHTLY DURING WEEK. AVERAGE CLOSING RATE WAS 88.04 U.S. CENTS COMPARED WITH 87.95 U.S. CENTS PREVIOUS WEEK. HOWEVER, DOLLAR HAS SUBSEQUENTLY TRADED BELOW 88 U.S. CENTS.

5. SOME ANALYSTS SEE CONTINUED DOLLAR WEAKNESS OVER NEXT FEW MONTHS. REASONS CITED ARE (1) SMALLER MERCHANDISE SURPLUS IN SECOND HALF OF YEAR THAN CDOLS 1.9 BILLION REGISTERED IN FIRST HALF. (2) LIGHT (ABOUT CDOLS 175 MILLION) FOREIGN BORROWING CALENDAR IN AUGUST. (3) POSSIBLE SURGE IN DIVIDEND PAYMENTS ABROAD WITH EXPIRATION IN NOVEMBER OF AIB RESTRICTIONS ON DIVIDEND PAYMENTS.

6. CAPITAL MARKETS AND FOREIGN BORROWING: TOTAL NET NEW ISSUES OF SECURITIES IN DOMESTIC AND FOREIGN MARKETS WERE CDOLS 4.3 BILLION IN SECOND QUARTER, UP SOMEWHAT FROM CDOLS

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3.9 BILLION IN FIRST. FEDERAL AND PROVINCIAL BORROWING INCREASED WHILE CORPORATE ISSUES DECLINED. FOREIGN BORROWING IN SECOND QUARTER WAS CDOLS 2.8 BILLION, THE HIGHEST QUARTERLY LEVEL SINCE FIRST QUARTER OF 1976. SHARP RISE IN FOREIGN BORROWING IN QUARTER PRIMARILY DUE TO GOC ISSUES TOTALLING CDOLS 1.4 BILLION (FIGURES DO NOT INCLUDE GOC STANDBY CREDITS WITH U.S. AND CANADIAN BANKS). PROVINCIAL FOREIGN BORROWING ALSO INCREASED WHILE CORPORATE BORROWING DECLINED.

7. IN ITS FIRST PUBLIC DEBT OFFERING, EXPORT DEVELOPMENT CORPORATION (EDC - CANADIAN EQUIVALENT TO EXIM BANK)

FLOATED U.S.DOLS 125 ISSUE IN NEW YORK MARKET. ISSUE  
FKARRIED COUPON OF 8.6 PERCENT AND WAS PRICED AT U.S.DOLS  
100. RECEPTION OF ISSUE BY MARKET DESCRIBED AS "LUKEWARM"  
DESPITE EDC'S TRIPLE "A" BOND RATING. EDC HAS RAISED MORE  
THAN CDOLS 500 MILLION FROM PRIVATE PLACEMENTS WITH U.S.,  
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EUROPEAN AND MIDDLE EASTERN INVESTORS.

8. SHORT TERM INTEREST RATES ROSE IN WEEK. YIELD ON  
THREE MONTH TREASURY BPLS WAS 8.74 PERCENT, COMPARED WITH  
498.71 PERCENT PREVIOUS WEEK. BOND PRICES WERE STABLE.  
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## Message Attributes

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